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SUBJECT: OIL EXECUTIVES DOUBT MINISTER'S CLAIM OF 2009
PRODUCTION INCREASE

REF: A. KHARTOUM 1653
[1](#)B. KHARTOUM 1232

[1](#)1. (SBU) Summary: In meetings from November 18-20, oil industry executives told econoff they were doubtful that Sudan could boost oil production from 500,000 to 600,000 barrels per day in 2009, as claimed recently by Minister of Energy and Mining Zubeir Al Hassan. While increasing production in Petrodar's Blocks 3 and 7 might help offset the serious decline in GNPOC's Blocks 1, 2 and 4, output in Sudan's other producing blocks remains meager, and there are no new fields coming online, they said. Representatives of the WNPOC consortium with the rights to Block 5B in Jonglei state noted that the prospects for oil discovery there have diminished significantly after their third attempt to drill for oil failed. This was in addition to two failed attempts by the block's other operator, Ascom. The oil executives said that, on the whole, oil exploration in Sudan remains inadequate because current players lack the ability or incentive to invest the sums required (due to both profitability and security concerns,) a trend that looks set to continue with the falling price of oil and the recent abduction and subsequent slaying of Chinese oil workers (reftel A.) End Summary.

[1](#)2. (SBU) From November 18-20 econoff met with executives from several oil firms, including Dr. Yousif Mohamed Ahmed, President of the Sudapet-affiliated Star Oil Operating Company and former Vice President at Greater Nile Petroleum Operating Company (GNPOC); Dr. Alam Al Bagi, Representative of Lundin Sudan BV; and Ahmed Fadul Jabralla, Technical Services Manager for White Nile Petroleum Operating Company (WNPOC).

[1](#)3. (SBU) Oil industry executives reported that production in the aging fields in Blocks 1, 2 and 4 producing the preferred Nile Blend has fallen below 200,000 b/d, from a one time high of over 325,000 b/d. They attributed this rapid decline to the failure of GNPOC, the blocks' operator, to undertake the planning and assessment necessary to optimize the fields' recovery rate. "These are all national oil companies," said WNPOC's Ahmed Jabralla. "They don't invest in research and development like Western firms do." (Note: GNPOC is a consortium of China's CNPC, Malaysia's Petronas, India's ONGC Videsh and Sudapet. End Note.) Dr. Al Badi of Lundin added that while Eastern oil firms were bridging the technology gap with their Western counterparts, they still lacked sophistication in reservoir management, planning and simulation for the optimization of production. He estimated that Blocks 1,2 and 4 were now pumping 75% water and 25% oil, a trend which would be very difficult to slow down without

significant investment, which he said was not forthcoming.

¶4. (SBU) While production in Blocks 1, 2 and 4 is declining, the oil executives reported that it is increasing in Blocks 3 and 7 operated by Petrodar, a consortium led by China's CNPC and Malaysia's Petronas. (Note: Blocks 3 and 7 produce the Dar Blend, which has a higher acidic content and is less attractive to refiners than Nile Blend. End Note.) Petrodar is currently pumping around 200,000 b/d, but "they are adding reserves on an annual basis," said Ahmed Jubralla, who estimated that production could eventually increase to 300,000 b/d.

¶5. (SBU) The output in Sudan's other producing oil blocks remains relatively meager. Block 6 in South Kordofan is estimated to be producing somewhere between 30,000 to 60,000 b/d, according to the oil executives. Dr. Ahmed of Star Oil, which is active in the area, noted that insecurity is becoming prohibitive in the exploration and development of oil fields in this region, especially in the wake of the kidnapping and subsequent slaying of several Chinese oil workers in October 2008 (Ref A). "Only ten percent of (neighboring) Block 17 is secure," he said. "The government doesn't respond to our requests for protection."

¶6. (SBU) Meanwhile, in Block 5A in Unity State, a WNPOC consortium led by Petronas, is producing approximately 25,000 to 30,000 b/d, but is facing difficulties transporting the crude out of the block. WNPOC's Ahmed Jubralla explained that while the consortium built a 170 kilometer pipeline to link it to GNPOC's pipeline, the quality of the crude produced in 5A is inferior to GNPOC's Nile Blend and GNPOC consequently has limited WNPOC to just 10 percent of its pipeline

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capacity. "This is an ongoing issue for us because it limits the marketability of our product," he said. WNPOC is examining the possibility of tying into Petrodar's pipeline in Blocks 3 and 7 and has even considered trucking the crude, he said, but the latter was abandoned due to concerns about infrastructure and security.

¶7. (SBU) In Block 5B in Jonglei state, a variant WNPOC consortium including Sweden's Lundin has seen its third attempt to drill for oil there result in yet another dry well. This in addition to two other dry wells dug by Ascom, the Moldovan operator engaged in a long-running dispute with WNPOC over rights to the Block. (Note: Ascom is currently in the process of drilling a third well. End Note.) While Lundin's Dr. Al Bagi downplayed the negative findings by saying that "five or six dry wells in an area totaling over 20,000 square kilometers means nothing," WNPOC's Jubralla was more circumspect. After the failed drilling attempts, "the block's potential has obviously been downgraded," he said. "There's still a possibility to find oil in 5B, but it's not going to be huge."

¶8. (SBU) Queried by econoff about the prospects for discovering oil in Block 12A in North Darfur (Ref B), the oil executives downplayed its significance. Dr. Al Bagi noted that while oil firms in northwestern Sudan were carrying out some small-scale seismic work, "geologically, one cannot expect huge discoveries there." Ahmed Jubralla added that "in order to conduct adequate exploration up there you need big money," and the operators of the block "simply don't have it." (Note: The rights to Block 12A in North Darfur is held by a consortium of smaller oil firms including Qahtani, Ansan Sudapet, Dindir Petroleum, Hi Tech and A.A. Inv. The operators of 12A reportedly signed a memorandum of understanding with South Africa's PetroSA, who occupies neighboring Block 14, earlier this year to swap seismic contracts and share information. End Note).

¶9. (SBU) Comment: Sudan cannot boost production in any significant way without new investment in exploration and development. But the falling price of oil, combined with

rampant insecurity in some important oil producing areas and an uncertain political future, are likely to preclude such investment for the time being. This will have a major negative impact on the economies of both North and South Sudan, and on the solvency of both the GNU and the GOSS. Neither government is likely to cut back on defense spending (at least for arms), so we can expect problems with civil servant and possibly military salary payments, as well as transfers to regional governments, while Khartoum and Juba attempt to address their top priorities. This could have a significant negative impact on the stability of both governments, especially the GOSS, as it is almost 100 percent reliant on oil revenue transfers. Plunging oil revenues, an arms race, and political instability and rivalries between the NCP and SPLM (and by factions within each party) could prove to be a toxic brew for Sudan in 2009. Septel will report on the anticipated 2009 GNU budget, due to be examined by Parliament in the coming weeks.

FERNANDEZ